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# **APA**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

**ANNUAL REPORT 2003**



# AUDITOR OF PUBLIC ACCOUNTS

## ANNUAL REPORT 2003

*Cover: Capitol and Washington Monument, Richmond, Virginia, circa 1911*

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Richmond, Virginia*

### OCTOBER 2003



## EXECUTIVE SUMMARY

In fiscal year 2003, the Auditor of Public Accounts conducted numerous audits and reviews of state agencies, universities, and courts. This Annual Report summarizes significant findings of those audits and reviews, and also discusses challenges facing the agency.

Our special review of the Department of Transportation's cash management of capital budgeting practices revealed that Transportation's recent cash shortages resulted from not matching construction projects in the Six Year Program to available resources. Transportation must reengineer its approach to planning, budgeting, reporting, and project and budgeting oversight. In addition, the agency's practice of borrowing against anticipated federal funds is resulting in a greater debt load every year. Transportation's incoming Commissioner responded positively to our findings and has since implemented many recommended changes.

Our audit of the Department of Motor Vehicles disclosed continued cash flow problems that led the department to obtain a Treasury loan to meet its vendor obligations. The ongoing cash problems converted a \$3.4 million surplus in 1997 to a cash deficit of \$1.8 million in 2002. Since the release of our report, we have been working with Motor Vehicles on a new cost management system.

Our auditors and the internal auditors at Virginia State University found \$800,000 in questionable contract administration practices and procedures at the University. Since then, the University has developed detailed procedures to improve contract oversight.

To develop the technical expertise needed in today's auditing environment and to leverage our staffing to achieve the greatest efficiency, we reengineered our organizational structure by creating specialty audit teams. The 11 teams consist primarily of financial auditors who receive training and sometimes advanced certification in their areas of expertise, including fraud detection, systems development and security, reporting, investments and derivatives, and contract law. For example, our new Systems Development team is monitoring the progress of over \$316 million in agencies' and universities' systems development projects.

The challenges facing the APA are considerable. Our staff turnover is very high and we expect it to increase as the economy improves. Departing staffers cite low pay as a primary driver; APA's starting salary for auditors is about 6% to 20% below the national average, and the salary we can offer experienced auditors and directors is between 8% and 30% below that offered by competing regional employers.

Our authorized staffing has dropped 25%, from 195 to 145 in the past decade. Our actual staffing is only 118. Low staffing, coupled with high turnover, limits the number and scope of audits and reviews we can perform.

We believe that we can generate sufficient internal savings to provide our staff a cost-of-competition increase to compensate for the disparity of our salaries with the market and make our mandated budget cuts. We anticipate that we will not only meet our budget reduction as we did in fiscal 2003, but that we will have additional savings. Using some portion of this additional saving for salary adjustments will in the long term provide additional savings to the Commonwealth and allow us to continue performing our work to the standard expected by the Legislature and by our profession.

## INTRODUCTION

**Purpose of this report.** This report, submitted to the General Assembly, describes the work performed by the Auditor of Public Accounts (APA) during fiscal year 2003, and the significant findings APA reported to the Joint Legislative Audit and Review Commission (JLARC) during that time.

**How this report is arranged.** The main body of the report addresses significant findings and issues related to financial matters; internal control matters; fraud; systems security; systems development; performance, budgeting, and forecasting; and judicial systems. The appendices discuss the APA, its mission and history, and its products and staff.

**What is an audit? Why does an audit matter?** An audit gathers and evaluates evidence (in this case, evidence about agencies' financial statements and business operations). The purpose is to determine whether the financial statements and/or operations meet established criteria, such as generally accepted accounting principles (GAAP), state and federal regulations, or industry best practices. Audit reports provide impartial information to decision makers, including the Legislature, the Governor, and credit rating agencies, as well as the general public.

**Auditing standards.** The U.S. Comptroller General and the American Institute of Certified Public Accountants (AICPA) establish the guidelines for audits of American businesses and governmental entities. APA's auditors, many of whom are certified public accountants, adhere to those standards.

**APA's reports.** Our reports provide a brief description of the agency's operations and often discuss matters that have potential long-term impact on the agency's and the Commonwealth's financial operations. The reports also review significant financial commitments and other developments. Traditionally, audit reports focus on safeguards called controls. During the last year, our reports also began addressing Financial Operations, Systems Security, and System Development. This report includes a discussion of each of these areas.

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## FINANCIAL MATTERS

Audits can reveal issues that affect the agency's finances or efficiency that can have long-term financial implications for the Commonwealth. Over the past year, we released the Special Review of the Cash Management and Capital Budgeting Practices in the Virginia Department of Transportation and the cash deficit at the Department of Motor Vehicles. Below are those reports and others with financial findings.

### *Virginia Department of Transportation for the Year Ended June 30, 2002*

**Special Review of Cash Management and Capital Budgeting Practices.** The Virginia Department of Transportation's recent cash shortages resulted from a lack of cash and project management, and not matching construction projects in the Six Year Program to available resources. Transportation does not have a systematic way to identify its maintenance needs and, therefore, cannot reasonably determine or quantify these maintenance needs. Compounding these issues is a complex collection of automated systems that do not consistently exchange data and do not provide timely and accurate information to support Transportation's management needs.

The comments below summarize the process outlined in Chapter 8, "Best Practices," of the complete report (which can be accessed at [www.apa.state.va.us](http://www.apa.state.va.us)). This chapter outlines a process for Transportation to change how management approaches planning, budgeting, reporting, and project and budgeting oversight. Transportation's implementation of these recommendations will require substantial time and effort, as well as the cooperation of the Commonwealth Transportation Board, the General Assembly, the Governor, and other state agencies and institutions.

Transportation should make cash management and budgeting a priority for the entire agency. This includes budgeting for all cash inflows and outflows including construction, maintenance, and administrative program sources and uses. As a result of this budgeting change, the General Assembly may wish to consider establishing a reserve fund similar to the Commonwealth's Rainy Day Fund for Transportation to compensate for economic changes. The proposed budget method matches anticipated payouts against anticipated cash flow and results in the Six Year Program becoming a six-year capital budget.

The Commonwealth Transportation Board (CTB) should develop a prioritization method for project selection as required by the General Assembly. Given a limited pool of resources and a virtually unlimited list of projects, the CTB must have a process to balance resources against needs and desires. By prioritizing a list of statewide projects and having more realistic project cost estimates, the CTB can provide the public with a transportation plan that allows for construction within available resources.

To achieve accountability with the cash management and budgeting process for both Transportation and the CTB, especially within the Six Year Program, we recommend Transportation assign a project management team that follows a project from its inception to its completion. This team has responsibility for the project's development, construction, and progress. The team also reports the project's progress to management and the CTB and includes both the engineering and financial management of the project. The CTB should prepare

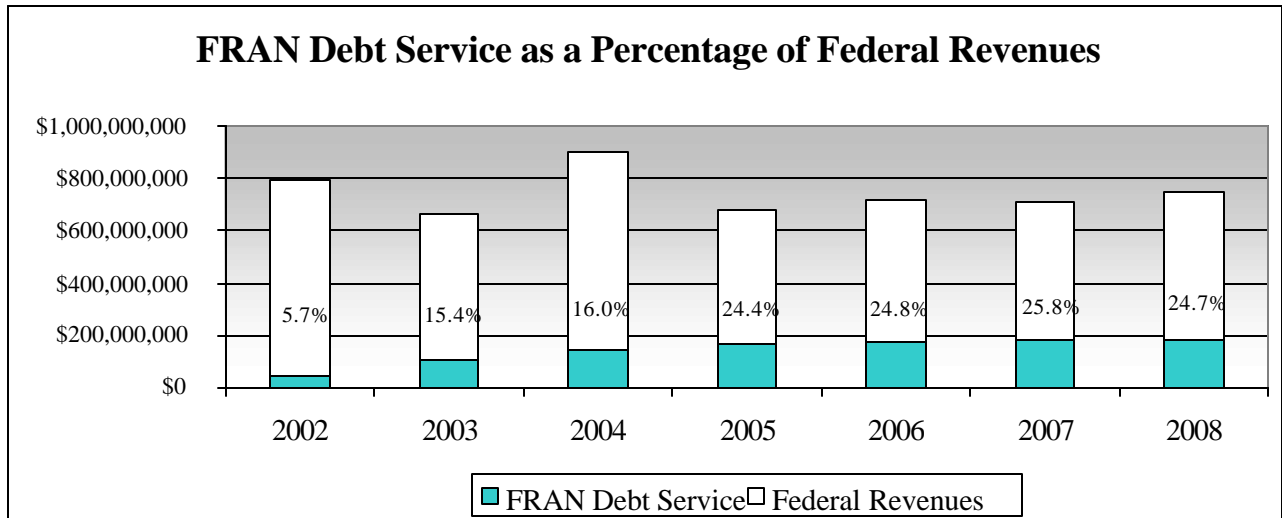
and present a report to the General Assembly outlining what the Six Year Program achieved and its shortfalls. The project team concept extends to Transportation's entire operations including maintenance, where there is also a need to implement an asset management system. Transportation needs a sound working asset management system to assess and set its funding needs. In addition, this system should allow management to establish the same level of accountability envisioned for the Six Year Program.

To make any decisions properly, Transportation needs timely and accurate information. For proper communication to exist, Transportation must have systems that can interact and exchange information. Data should be reliable and data fields designed for compatibility. Systems should be user friendly and should provide management with timely, accurate, and easily available management reports. Transportation has taken steps toward an interim solution to their information needs problems with the creation of the Data Warehouse; however, the best practice is ultimately an enterprise solution.

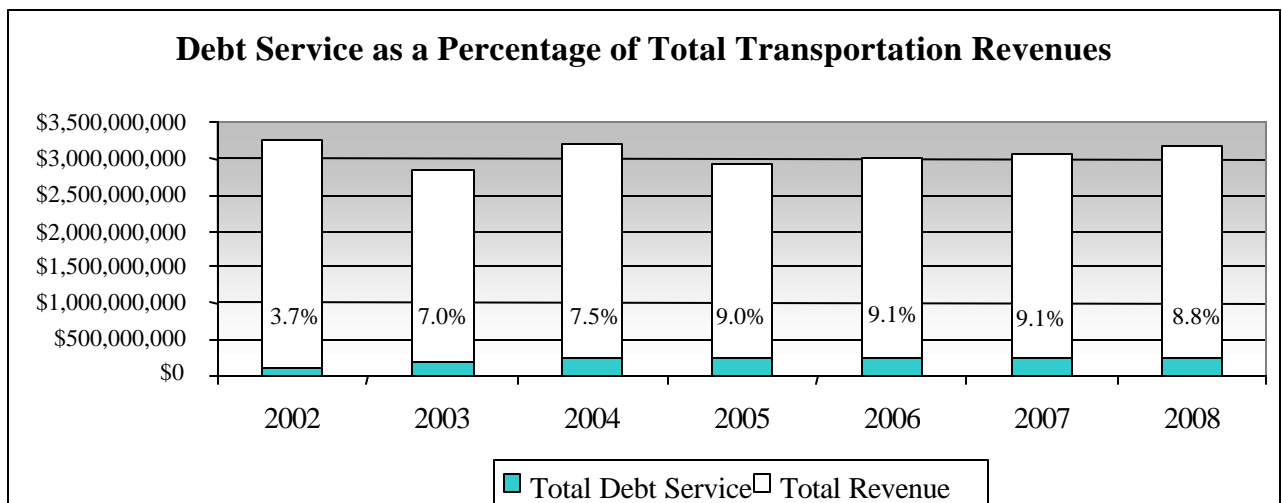
**Impact of Federal Reimbursement Anticipation Notes (FRANs).** Transportation has turned to the issuance of FRANs as a method to provide current resources for construction. Transportation currently plans to issue FRANs through fiscal year 2007 to support the Six Year Program. The Virginia Transportation Act limits outstanding principal on the FRANs to \$1.2 billion at any one time. Since annual debt service payments retire a portion of the principal, Transportation has staggered the issuance of each series, so that the timing of the debt service payments will prevent the outstanding principal from exceeding the \$1.2 billion limit.

However, the issuance of FRANs is only a short-term solution to a long-term problem and can actually make the cash flow situation worse in the future. While the issuance of FRANs provides a significant increase in available funds in the years Transportation issues the notes, the effect of debt service payments partially counteracts this increase and reduces the amount of funds available for construction in subsequent years. Additionally, FRANs require Transportation to continue spending on federally approved construction projects that qualify for federal reimbursement. Therefore, to ensure the continued flow of federal revenue to meet FRAN debt service, Transportation will need to commit and make as a priority, funding of those construction projects that will receive federal funding, and also direct state funds to these projects.

The following graph shows the impact the issuance of all of the FRANs will have on Transportation's future federal revenues. This graph shows projected federal revenues through fiscal year 2008 and the portion of federal revenues Transportation will have to spend on debt service for FRANs. If Transportation issues the FRAN as described in the full report (available at [www.apa.state.va.us](http://www.apa.state.va.us)), they will commit approximately 25 percent of federal revenues to debt service through fiscal year 2010. After that, debt service will taper off each year as Transportation completes the debt service payments for each series through fiscal year 2017.



In addition, by issuing FRANs as described in the full report, Transportation will increase its total debt service requirements as depicted below.



By 2006, Transportation's total annual debt service requirements will exceed \$278 million. Out of a \$3 billion annual budget, Transportation will be spending over nine percent of its budget on debt service. The Commonwealth, as a whole, uses five percent as the debt capacity limit to maintain an AAA bond rating. As Transportation considers issuing additional FRANs, they need to consider the amount of any proceeds remaining from previous FRAN issues, the readiness of projects to use the funds, and the impact the issuance has on current and future revenue streams.



**Recommendations:**

- Transportation should establish a policy on how to decide when and if to issue future FRANs. This policy should consider the amount of any proceeds remaining from previous FRAN issues, the readiness of projects to use the funds, and the impact the issuance has on current and future revenue streams.
- The General Assembly and the Governor may wish to consider having the Debt Capacity Advisory Committee review and recommend guidelines for Transportation to follow when issuing debt.

**Outcome.** Transportation's incoming commissioner responded positively to our report and planned to implement a number of recommendations. APA will review the department's progress in its fiscal 2003 audit, due to be released by January 2004.

***Department of Motor Vehicles  
for the Year Ended June 30, 2002***

**Operating Fund Deficit.** During 2002, Motor Vehicles' cash flow problems continued and required that the department obtain a Treasury Loan to meet its vendor obligations. The on-going cash problems over the past five years without adjusting spending patterns has converted a \$3.4 million surplus in 1997 to a cash deficit of \$1.8 million in 2002 and with unpaid bills added to the cash deficit, the total deficit is approximately \$8 million. As a condition of receiving the Treasury loan, Motor Vehicles had to develop a loan repayment plan and plan to resolve Motor Vehicles' cash flow problems. In addition to this plan, Motor Vehicles, like the rest of state government, has been subject to budget reductions.

Motor Vehicles has implemented budget reductions to address its long-term cash flow issues and its need to control costs. At this point, it is unclear whether management has taken sufficient steps to control long-term costs. Initial indications show that there is an increase in revenue, which appears to be primarily from the approved increased fees. Recent actions to reduce staff and begin recovering a portion of the credit card merchant's fee should also help to reduce costs.

Additionally, Motor Vehicles' management will need to consider the necessity of retaining some minimum level of cash reserves to fund on-going operations or to have a permanent line-of-credit to meet their obligations. The amount of this reserve will depend on the ultimate effect of the budget reductions and other actions management takes. The full report (available at [www.apa.state.va.us](http://www.apa.state.va.us)) discusses the lack of adequate cash reserves and highlights the problems management will face if it does not have access to this operational funding mechanism. The report provides background on Motor Vehicles' cash flow problems and how management plans to implement the budget reductions. Motor Vehicles' management will need to monitor its progress as it implements the Treasury Loan Repayment plan and the budget reductions.

**Status.** APA is simultaneously conducting a special review of the Motor Vehicle's accounting structure and a regular financial related audit of the agency for fiscal 2003. The reports will be released in November and December 2003, respectively.

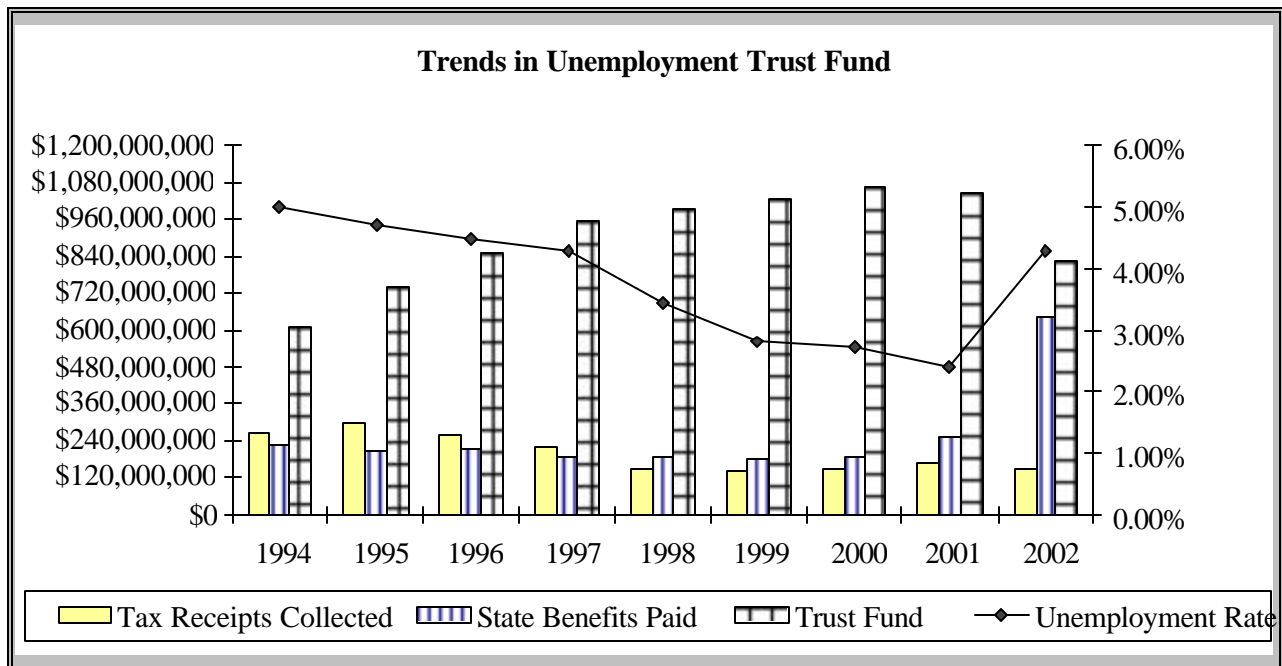
***Virginia Employment Commission  
for the Year Ended June 30, 2002***

**Unemployment Trust Fund.** When the Employment Commission collects unemployment taxes from employers, it deposits the collections into the Unemployment Trust Fund for which the Employment Commission is the trustee. The Employment Commission then makes all benefit payments from the trust fund. State law requires that any individual receiving benefits must have earned a minimum amount of total wages in two of the first four of the last five calendar quarters, referred to as the base period. The minimum dollar amount is \$2,500.

As a result of the events of September 11, 2001, and the downturn in the economy in November 2001, the former Governor issued an Executive Order increasing all unemployment benefits by 37.3 percent. This increased the minimum benefit from \$50 to \$69 and the maximum benefit from \$268 to \$368. These higher benefit amounts remained in effect through January 4, 2003. Legislation enacted in 2002 reduced the increase to 18.65 percent resulting in minimum and maximum benefits of \$59 and \$318, respectively. These benefit levels are effective from January 5, 2003 to January 3, 2004.

The Employment Commission levies taxes on employers' wages according to rates set by the General Assembly, which reflect the trust fund's solvency. The tax also includes an experience rating based on past claims against an employer's payroll. This rating requires employers with a history of higher claims to pay a greater rate and allows those with fewer claims to pay less. Under current law, employers only pay taxes on the first \$8,000 of each employee's wages. For the calendar year 2002, the maximum rate that an employer can be required to pay on those taxable wages is 6.20 percent, while the minimum rate is zero percent. For the fifth consecutive year, benefits paid out have exceeded collections, therefore, reducing the balance in the trust fund to below \$1 billion.

Since the trust fund is less than 100 percent solvent, the employer tax rates will increase in calendar year 2003 and the minimum and maximum rates will be 0.20 percent and 6.30 percent, respectively. All employers will pay a pool tax of 0.10 percent (included in the minimum and maximum rates), which is used to recover benefits that cannot be charged to a specific employer. The illustration below presents historical trends, which show the changes in tax collections, benefits payments, the trust fund balance, and the unemployment rate over the past several years.



**Status.** APA continues to monitor the Unemployment Trust Fund and will report on it as part of the Employment Commission audit in January 2004.

### ***Potomac River Fisheries Commission for the Year Ended June 30, 2002***

**Construction of New Office Building.** The Commission has placed excess cash into both the Maryland and Virginia Local Government Investment Pools and designated a portion of these investments for the future construction of a new office building. As of June 30, 2002, the building fund totaled \$330,074 after the purchase of land adjacent to the existing office building for approximately \$175,000 in fiscal year 2000 and architect design fees paid in 2002. Since completing the building design, the Commission is now negotiating with a bank to secure a construction loan up to \$300,000. This loan amount combined with the \$330,000 designated for the building should cover the building cost of about \$650,000.

The Commission receives more than \$310,000 in General Fund appropriations annually from Maryland and Virginia to support their operations. Over the past year, both Maryland and Virginia have experienced significant revenue shortfalls, causing budget reductions and personnel layoffs. The Commission has had its support from Virginia reduced by nearly \$20,000 in fiscal year 2002. Current budget projections for both Maryland and Virginia indicate that support to the Commission will continue to be less than in previous years.

APA recommended that the Commission defer construction of a new office building until the Maryland and Virginia fiscal situation stabilizes. The Commission, by obtaining a loan in a period of reduced appropriations, could place the Commission at risk of having to commit their operating budget to making debt service payments.

**Status.** The Commission's management and board decided to pursue funding for new construction, and so they met with Virginia and Maryland legislators; talks continue.

***Virginia Biotechnology Research Park Authority  
for the Year Ended June 30, 2002***

**Improve Controls over Financial Reporting.** The Virginia Biotechnology Research Park Authority (the Park) needs to continue to improve and strengthen both its financial reporting and record-keeping function. Our audit found several errors and inconsistencies in the recording and subsequent reporting of transactions that resulted in material adjustments to the Park's financial statements. One contributing factor is the lack of detailed accounting policies and procedures. Although the Park developed accounting procedures in March 2002, they do not contain sufficient detail to ensure consistent and proper recording of transactions in the financial system. For example, the Park's procedures do not include a chart of accounts and do not provide sufficient detail on transaction processing or reconciliation and closing procedures.

Overall, the Park needs to strengthen their financial reporting and record-keeping function. They should review and improve their current accounting policies and procedures by defining their chart of accounts, as well as providing sufficient detail on transaction processing and reconciliation and closing procedures. The Park's policies and procedures should address how to record transactions for activities that are unique to the Park, such as build-outs and the Park's relationship with the Virginia Biosciences Development Center. The Park also needs to ensure that adequate procedures exist for a proper supervisory review of critical transactions and processes. It is our understanding that the Park is continuing to work on developing a more detailed set of accounting policies and procedures, and has committed to have them in place by March 2003.

Finally, we recommend the Park review and evaluate the staffing and workload for the financial reporting function due to many new responsibilities that they assumed within the past year. The Park needs to address these areas not only to improve their annual financial statement report, but also to ensure that financial information used throughout the year for decision-making is reliable and consistent.

**Outcome.** Since our report, the Park has made significant progress. They hired a new controller as well as a part-time director of finance. They further contracted with a CPA firm to develop accounting policies and procedures. APA is monitoring their efforts in its ongoing fiscal 2003 audit, and will release a report in November 2003.

***Department of Criminal Justice Services  
for Years Ended June 30, 2001 and June 30, 2002***

**Strengthen Reconciliation Procedures.** The Department should review and strengthen their reconciliation procedures to ensure the correct recording of transactions in the Commonwealth Accounting and Reporting System (CARS). The Department's reconciliation procedures do not require staff to agree transactions recorded in CARS back to source documents as required by section 20900 of the Commonwealth Accounting and Reporting Manual. As a result, Department staff did not detect a \$1.6 million coding error until ten months after it occurred. The error occurred in October 2001 and affected the Crime Victims Trust Fund and the Criminal Justice Training Fund. The Department detected and corrected the error in August 2002, but the balances were misstated at the end of fiscal year 2002. The Department should ensure that staff consistently and thoroughly reconciles transactions in accordance with CAPP manual requirements.

**Status.** The Department has strengthened their reconciliation procedures. The APA will review them in their fiscal 2003 audit.

## INTERNAL CONTROL MATTERS

Internal controls consist of those policies and procedures implemented and maintained by an agency's management to provide reasonable assurance that the agency will achieve its objectives and goals. A comprehensive system of internal controls helps provide an essential safeguard against fraud, waste, abuse, and inefficiency, as well as misstatement in financial reporting. An agency's attention to having adequate internal controls is an expression of its control environment, the overall attitude or the "tone at the top" among top management and directors.

Every APA audit reviews the internal controls of the subject agency. Recent internal control findings of significance follow.

### *Virginia State University for the Year Ended June 30, 2002*

**Improve Contract Administration.** In the past fiscal year, the University's internal auditor and Auditor of Public Accounts staff have found over \$800,000 in questionable contracting practices and procedures, and have questions about the quality of work performed over a three-year period. The University has investigated the work of at least three contractors and found violations of the procurement act, disregard of internal procurement procedures, and a lack of inspections and other reviews to ensure the quality of work performed.

The University's Director of Residence Life had primary responsibility for scheduling and determining the scope of the work and had to coordinate the work with Facilities Management. The University has an outsourced contractor operating its Facilities Management and related procurement responsibilities. The University expected that its employees and the contractor would fully comply with the State's Public Procurement Law and University procurement policies, as well as exercise all due diligence procedures over contracts and work performed. The Director of Residence Life and the contractor's on-site manager appear to have placed timely completion of work as their priority ahead of complying with State procurement policies. As a result, the Director of Residence Life and the contractor's managers used several standing time and material contracts with different vendors to perform work and bypassed both internal and state policies and procedures.

Listed below are some examples of how these individuals used time and material contracts to bypass established procedures. To understand these examples, the reader needs to have the following basic understanding of the time and material contracts. The University awards time and material contracts for various construction trades to perform small non-routine or emergency work, and larger work for which the University does not have adequate staff to meet scheduled deadlines. As an example, the University may issue a plumbing contract and building and grounds would use the contract for emergency plumbing work to reconnect a moved cafeteria sink, or the University may engage a painting firm to repaint an entire dormitory

during an available two week period in the summer. University policy requires special budgetary and other approvals for any work over \$5,000; this dollar level of work requires the start of a competitive selection process for choosing a vendor. Any work over \$50,000 requires the publication of job requirements and written bids and evaluations.

**Findings.** The review found the following types of transactions:

- Issuing purchase orders to perform work not covered by the trade time and materials contract. As an example, having electricians perform carpentry work.
- Issuing multiple purchase orders under \$5,000 for work on a single project thereby avoiding having to seek competitive bids or to prepare written requirements.
- Providing the trade contractor with a detailed description of the work, but omitting this information on the purchase orders accompanying the contractor's invoice approved for payment.
- Issuing purchase orders without any specific description of the work performed, only the agreed dollar amount.
- Maintaining no documentation or indication of any inspection or approval of work performed.
- Allowing vendors to submit invoices with only references to the purchase order, thereby precluding payment processing from having information to review the billing. The time and material contracts require the vendor's invoice to include information on time spent by level of employee so payment processing would be able to compare the hours and amounts charged to the contract.

**Status.** The University developed detailed procedures improving oversight over time and materials contracts, and is reviewing the provisions of its contract with its contractor for maintenance and will implement improvements to oversight as they are identified. APA will continue to monitor its progress.

### ***Virginia College Savings Plan for the Year Ended June 30, 2002***

**Transitioning Board Governance.** The Virginia College Savings Plan (Plan) is a relatively new organization that has been in existence since 1995. Both management and the Board have concentrated on getting various programs up and running and responding to new state and federal legislation, which has occurred almost every year since the start of the Plan. Management and the Board need to continue their transition from the initiation of the Plan to a mature organization. This transition includes continuing to move towards an anticipatory rather than reactive approach to operations. In making the transition, management and especially the Board need to continue their current efforts to develop a process that involves both management and the Board in the policy setting, planning, and oversight functions.

Additionally, the Board should set forth its expectation of management and the information and policies it needs to review to exercise its oversight responsibilities. The Board should enhance its committee structure

to address the key components of the Plan's operations and should continue to refine and review the function, roles, and responsibilities of each committee. The enhancement of standing committees will provide the Board with a framework for making decisions that have a significant impact on the Plan. How the Board enhances its committees, whether by subject matter or operational function, is not as important as making sure the Board sets a structure that provides both the committees and the Board with information in the following key areas.

- **Investment Management:** The Board should use its Investment Committee as a model when considering how to establish other committees. The Investment Committee should continue to regularly receive information concerning investment performance and activity that allows it to monitor investments within the guidelines and policies established by the Board. The Committee's ongoing review determines if its investment guidelines and policies require revision. The Board should work with the Committee to determine what type of information it needs to make decisions.
- **Actuarial Assumptions and Contract Pricing:** The Board should consider establishing an anticipated schedule that allows for the receipt of all key information from the actuary, financial reporting, marketing and other external groups deemed necessary to evaluate, consider, and decide on the appropriate pricing of contracts. In order to achieve this objective the Board will need to continue working with management and its outside consultants to ensure that all parties understand their duties and responsibilities in providing the Board information. The Board should clearly articulate its needs and hold all parties accountable for providing timely information.
- **Financial Performance, Budgetary, and Other Monitoring:** The Board needs to review periodically its requirements for information including the frequency, format, and content of the reports it expects from management and others. Some of the information requirements may be as basic as monthly budget versus actual spending reports or as complex as actuarial information and its impact on pricing considerations. The Board should continue to examine what it considers necessary to make sound business decisions and then assure themselves that management has complied with their needs. The Board should recognize that over time these baseline information requirements will change to meet changing needs. The Board, as part of its regular meeting schedule, should arrange to have those individuals and organizations that support the Plan to discuss their progress in meeting the Board's objectives and goals. Clearly, the Board does meet with the actuary and investment consultant, but this schedule should also include the external auditor and other experts the Board thinks can assist them in performing their oversight responsibilities.

The items above are a partial list of items that the Board may wish to consider and review. None of these suggestions are a reflection on the current Board or management, but are an indication of the need to continue the transition into an organizational approach to issues and other considerations facing the Board.

**Outcome.** The VCSP Board formed an Actuarial Valuation Committee to review investment actuarial assumptions, contract pricing, and agency expenses. The Committee has met twice since inception and another meeting is scheduled to occur prior to the receipt of the final valuation and contract pricing. Prior to the management recommendation, the Plan already had established an Investment Advisory Committee that has been very active this year. During the fiscal year the Committee was involved with reviewing the performance and mix of current managers and interviewing new external investment managers. APA is reviewing the Board's development in its fiscal 2003 audit and will release its report in January 2004.



## FRAUD

### *The APA Fraud Task Force*

The Auditor of Public Accounts has developed a Fraud Task Force consisting of auditors who are Certified Fraud Examiners (CFE), Certified Public Accountants (CPA), and Certified Information Systems Auditors (CISA). The Task Force performs and provides assistance with fraud investigations. Through ongoing training and access to various other resources, the Task Force stays current on the latest fraud trends and investigation techniques. The Task Force expands acquired knowledge to other APA auditors to increase their awareness of the risk of fraud, waste, and abuse as they perform audits.

### **How does APA learn about suspected fraud?**

In several ways, within the scope of a routine audit, all auditors must inquire of agency management and employees whether they know of any possible fraud. They also remain alert for evidence of potential fraud. Outside of routine audits, APA sometimes receives referrals from the State Internal Auditor's Fraud Hotline, as well as tips from state employees and citizens.

Over 95 percent of the frauds reports to our office come from representatives of the state agencies, who receive notification from an employee, customer, vendor, or anonymous source. Section 30-138 of the Code of Virginia directs any state department, court, officer, board, commission, institution, or other agency of the Commonwealth...who suspect fraudulent activity involving funds or property under their control to promptly report such activity to the Auditor of Public Accounts.

### **What does APA do when it learns of suspected fraud?**

APA reviews the information, determines the appropriate means of follow up, and coordinates its efforts with those of other state agencies, including, where appropriate, the State Police. APA makes a determination as to whether evidence indicates a fraud may exist, but does not make a legal determination of whether a fraud has occurred. Some cases result in prosecution and conviction; some in suspension or termination of employees; some are dismissed.

### **How many cases of suspected fraud did the APA receive in 2002-2003?**

The table below illustrates the status of fraud cases reported to APA during fiscal year 2002 and 2003.

Fraud Reports	2002	2003
Beginning balance	77	34
New Reports	68	46
Closed Reports (see below)	111	36
Active/Pending Reports	34	44

The table below illustrates the disposition of reports closed by APA for fiscal years 2002 and 2003.

Disposition	2002	2003
Conviction	8	2
Conviction and Restitution	19	6
Suspension	6	1
Termination	25	16
No Administrative Action	3	-
No Fraud	23	6
No Suspect	21	4
No Conviction	6	1
Total	111	36

The best way to prevent fraud against the Commonwealth is with strong internal controls. We recognize and try to enforce the importance of audits and other preventive measures as effective ways to reduce the instances and financial impact of fraud, waste, and abuse. Additionally, we are creating an in-house database that will allow us better to compile, analyze, and report fraud investigation data.

## SYSTEMS SECURITY

Information Security used to be as simple as remembering to lock the filing cabinet. In recent decades, however, electronic information systems have brought us new efficiencies and vulnerabilities to threats like hacking, viruses, natural disaster, and human error. For the State, the potential resulting havoc could be serious, costly, and even life-threatening. How can our citizens and leaders know whether the Commonwealth's data is safe, and whether appropriate safeguards are in place in the many computer systems statewide?

### *The APA Systems Security Team*

In response to these concerns, the APA created its Information Systems Security Team. IS Security Team members, who are auditors specially trained in technology and security, hold advanced certifications including Certified Public Accountant, Certified Information Systems Auditor, and Microsoft Certified Systems Engineer.

The team uses a complex risk model to determine which resources to audit each year. Using industry best practices and State regulations as guides, they inspect and evaluate the procedural, hardware, and software safeguards (called **controls**) of critical computer systems in the Commonwealth's agencies and universities. In a typical day, a team member may review settings in an agency's router or firewall; review encryption methods used by a college to transfer sensitive student data; evaluate security over financial records in an aging mainframe; or provide vulnerability assessment and penetration testing services (called "ethical hacking" by some) for an agency's network.

In the past year, the Information Security Systems team reviewed the security of information systems at numerous agencies, colleges, and universities. Those reports with significant findings are summarized below.

**To the Future.** APA and the Secretary of Technology share the common goal of assuring information resources are properly controlled. The APA Systems Security Team is working in conjunction with the Department of Planning and Technology to develop a comprehensive IT security audit program. This partnership should yield synergistic efficiencies for the Commonwealth (ref: DTP report, "Security of Government Databases," April 2003).

### *Security Standard 2001 – Key to Virginia's "Homeland Security"*

*The unthinkable is no longer unthinkable.*

That's the reality we all face now, and we have to plan for it. If a fire engulfs a key State office building, will the funds still flow for schoolchildren's lunches? Can the employees continue to approve Medicaid payments? What if a university medicalcenter is flooded: will sensitive, critical medical records be safe and available? If a computer virus attacks a key information processing system, will the State Police be able to access criminal background files? Will motorists be able to renew their drivers' licenses?

Now more than ever, government and business alike need a formal program devoted to protecting their critical information security resources. The Commonwealth of Virginia Information Technology Resource Management Security Standard (SEC2001-01.1) sets the standard for all state agencies and universities.

First, agencies and universities evaluate their business practices and decide which are most critical. Next they evaluate which of those practices relies on computer systems. Then they consider what threats are possible, and what impacts those risks might have on their critical systems. Then, to lessen exposure to those risks, they take concrete steps such as:

- preparing contingency management plans
- improving physical security of information processing spaces
- backing up data regularly, and storing it offsite
- training personnel in security awareness
- using antivirus software
- installing and hardening computer firewalls
- encrypting sensitive data

APA helps ensure that agencies are actively complying with this standard, and are updating their plans as their systems or circumstances change, during regular agency audits.

### ***Department of Information Technology for the Year Ended June 30, 2002***

**Backup, Disaster Recovery Planning, and Physical Security.** The following agencies use DIT's data center as a site to house their various servers: Virginia Employment Commission, Department of Technology Planning (Virginia Geographic Information Network), State Board of Elections, Department of Social Services, Department of Taxation, Virginia Retirement System. None of the agencies have DIT handle their disaster recovery services for the servers. Agencies need to include their servers located at DIT in their own disaster recovery plans.

Our auditors determined that the Department of Information Technology's (DIT) data center lacks adequate emergency power in the event of a power disruption from its commercial supplier. The Data Center has equipment for maintaining conditioned power to its computer equipment and heating and cooling systems only for a short period of time, approximately two hours.

#### **Recommendation:**

- DIT should strongly consider the installation of an alternative emergency power source such as a diesel generator. Such a power source could provide DIT with reliable electricity to continue operating the Data Center and other critical operations for extended periods of time.

**Outcome:** DIT is exploring funding for a generator. APA will revisit the issue in its fiscal 2003 audit of the agency.

# SYSTEMS DEVELOPMENT

## *The APA Systems Development Team*

Through the years, the State has spent an increasing amount on systems development projects. Many projects have succeeded; but some have run over budget and fallen behind schedule, and some other projects failed. In response, the APA created a team of information systems specialists trained in industry-defined best practices, State regulations, and audit techniques. The team monitors systems development projects from beginning to end, and reports on progress and potential problems to the legislature. The Systems Development Team's goals are:

- To ensure all systems developed will process financial information accurately and efficiently, and create a usable audit trail.
- To ensure all planned systems include safeguards (called controls) that will promote accuracy, dependability, and security.
- To ensure projects are progressing on schedule, within budget, toward success.

What does the team look for? They know that successful systems development projects share certain traits:

- Project Scope and Time Management
- Commitment
- Risk Management Mechanisms
- Financial Management Mechanisms
- Procurement and Contract Management
- Communication

They also know that successful project managers share certain traits. They:

- seek strong executive, legislative, and agency commitment to a project, and assign sufficient and competent staff to it.
- define the business need, prepare a detailed project plan, and define a method to control changes to the project plan, scope, and schedule.
- identify, analyze, and respond to uncertain events or conditions that may impact a project objective.
- prepare complete cost estimates and budgets, attempt to secure a dedicated funding source, and control budget changes.
- incorporate sound vendor and product selection processes, and seek to develop a legally enforceable contract as part of their procurement management.
- develop strong team communication, information distribution, and performance reporting mechanisms.

Using a scorecard to rate significant development efforts, the team provides unbiased information to the Legislature, the Governor, the Commonwealth's Chief Information Officer, and the Information Technology Investment Board. They often include project status in the agency's annual audit report. If the team identifies serious project management concerns, they report those concerns to the appropriate authority, along with recommendations for corrective action.

### ***Current Systems Development Projects***

The APA Systems Development team is currently reviewing the progress of agency and university systems projects with a combined value of more than \$316 million:

<b>System Name</b>	<b>Agency Responsible</b>	<b>Project Budget</b>	<b>Project Phase</b>
<b>eVA</b>	Department of General Services	\$22.4 million	Implementation
<b>Banner Financials</b>	George Mason University	\$5.4 million	Development
<b>Banner</b>	Christopher Newport University	\$3.2 million	Dev/Implementation
<b>New enterprise system</b>	Mary Washington College	\$3 to \$5 million	Planning
<b>Banner HR</b>	Virginia State University	\$345,000	Implementation
<b>CareCast</b>	University of Virginia Medical Center	\$38.4 million	Development
<b>Mastering Administrative Systems and Technologies</b>	College of William and Mary	\$6.7 million	Dev/Implementation
<b>Licensing Programs Help Information Network</b>	Department of Social Services	\$3.7 million	Will be done by 9/30
<b>MMIS</b>	Department of Medical Assistance Services	\$39 million	Implementation
<b>Integrated Case Mgmt.</b>	Department of Rehabilitative Services	\$3.2 million	Planning
<b>State wide ERP (replace CARS)</b>	Secretary of Technology	Unknown	Conceptual design
<b>VABS</b>	Virginia Employment Commission	Unknown	Conceptual design
<b>Customer Contact Centers</b>	Virginia Employment Commission	\$12 million	Planning
<b>Integrated Revenue Mgmt. System</b>	Department of Taxation	\$160 million	Dev/Implementation
<b>LVR</b>	Department of Motor Vehicles		Planning
<b>Integrated Justice Program</b>	Department of Criminal Justice Services	\$6.5 million	Planning
<b>Central Voter Registration System</b>	State Board of Elections	\$12 million	Conceptual design

Recent team findings include:

- The state's electronic commerce initiative, eVa, operated by the Department of General Services (DGS) does not interface with numerous agency procurement systems. This has cost the state extra labor hours because, at those agencies, staffers must enter all orders twice – once into eVa, and once into the agency's system. APA advised DGS and other agencies to develop the necessary interfaces.

- When interfacing with some agencies' systems, eVa will not accept small purchase charge cards due to security precautions. Since transactions involving these charge cards create the bulk of agency purchases, this obstacle cost extra labor hours. APA advised DGS to develop an interface that would accept small purchase charge cards.
- eVa does not have full vendor participation. DGS has attempted to force vendor registration, but vendors have little incentive to register, since many agencies bypass eVa when they place orders. APA advised DGS to work to improve vendor relations and to increase vendor participation. Outcome: DGS is encouraging agencies to make purchases via eVa, and monitors agencies' use of the system.

### ***Commonwealth's Electronic Procurement System eVa, Special Report, December 6, 2002***

Agencies' use of eVA has increased since our Special Report dated May 31, 2002. However, currently eVA only accepts and processes about 18 percent of interfaced agency purchases. The high rejection rate is due to the low number of registered vendors in the system. Currently, somewhere between 15 and 26 percent of known Commonwealth vendors are registered in eVA. To increase the number of registered vendors and increase the use of eVA, our report identifies and describes areas where General Services and agencies must focus their efforts:

- Enforce the requirement that agencies only conduct business with eVA-registered vendors as currently required in both the Vendor and Procurement Manuals;
- Establish policies and technical requirements for the eProcurement functionality so that agencies may plan for implementation in this time of budget shortfalls and reduced personnel; and
- Identify future eVA functionality and develop an implementation plan to include a cost/benefit analysis to identify agency participation.

General Services has modified the contract with eVa's software services provider, American Management Systems and reduced the future revenue guarantees made to AMS that are required in the remaining years. The reduced guarantee is the result of agreeing to accelerate payments to AMS in fiscal years 2003 and 2004 as AMS meets functional milestones. Funding of \$7.1 million to pay the accelerated payments came from a 2002 veto session amendment that temporarily ceased vendor fees as a source of revenue and instead required General Services to collect money from each agency and institution. General Services plans to resume collecting vendor fees in fiscal year 2004, rather than requiring agencies to pay for the system.

**Status:** APA will continue to monitor eVa's progress.

***Department of Health  
for the Year Ended June 30, 2002***

The Department of Health's Office of Information Management (OIM) continues to improve the division's function and performance, and continues to move forward on implementing several critical systems that have been in development for several years.

**Web-VISION.** As described in our previous reports, the original Virginia Information Systems Integrated On-line Network (VISION) system had many deficiencies. Late in 1999, management determined that the data in the recently implemented VISION system was corrupt, and that the system was obsolete and no longer met Health's functional needs. Therefore, management decided to replace the obsolete system with the new web-based Virginia Information Systems Integrated On-Line Network (Web-VISION). The new system rewrites the old VISION system onto an Internet-based application and will restore the integrity of the system data. Web-VISION is a patient-level system that manages client registration, patient visit documentation, immunizations, accounts receivable, community events, and maternity statistics.

The original scheduled implementation date for Web-VISION was January 2001, but unanticipated problems with the accounts receivable module, data integrity, and data conversion delayed the implementation date to December 2003. Currently, the development of Web-VISION is complete. The first system pilot started in the Richmond City district in November 2002 and the second pilot began in the Staunton district in January 2003. The results and the lessons from the two pilots will enable the project manager to complete a comprehensive implementation plan with realistic projected implementation dates for each district. The project manager anticipates completing the implementation plan in February 2003. However, data cleanup efforts are still underway and continue to represent a time-consuming issue that could change the final completion date. Therefore, we cannot determine if Health can meet the December 2003 completion date.

**EMS Trauma Registry.** Another systems development project for Health is the EMS Web Trauma Registry system, which captures data/statistics on persons transported to emergency rooms as the result of injury (trauma) and the outcome of the emergency room visit. The data provides information on the person's injuries, the amount of trauma service, the level of intensity, and the outcomes in the facilities serving citizens of the Commonwealth of Virginia. OIM completed the EMS Registry by fiscal year end 2002, and began the EMS pilot testing at Southside Regional Hospital in Richmond and Riverside Regional Hospital in Newport News in October 2002. Health has not developed an implementation plan for rollout to all hospitals. Health anticipates completing the implementation plan after the completion of the pilot testing.

On all existing system projects, Health should ensure that they develop a detailed implementation plan upon the completion of pilot projects and adjust current target dates to reasonably reflect accurate information and timelines. This is important to identify all requirements and minimize any additional costs to ensure the most efficient implementation process.

**Status:** APA will revisit these issues in its fiscal 2003 audit of the Department of Health.



***Department of Corrections and Virginia Parole Board  
for the Year Ended June 30, 2002***

**Integrated Correctional Information System (ICIS).** Corrections provides information technology services through 27 different applications and systems reflecting different types and generations of computer technology. During fiscal 2001, Corrections began working on implementing an enterprise-wide system to replace, integrate, and web-enable its 27 applications/systems. The planned Integrated Correctional Information System (ICIS), has two parts: Offend Based Management System (OMS) and the Enterprise Resource Planning (ERP).

Corrections was working with a vendor, SAP, to develop the OMS although Corrections did not sign a contract to purchase the completed software. In fiscal year 2001, Corrections purchased 5,250 user licenses for financial, human resources, and manufacturing software from SAP for \$4 million. However, Corrections cannot use these licenses because they lack the funds to change the software as needed, and to purchase the necessary hardware and networks. The total cost of implementing the system with hardware is an estimated \$90 million. In the meantime, Corrections will continue to pay the annual maintenance fee to Oracle of \$680,000.

**Status:** ICIS has been split into two projects. One is the replacement of Corrections administrative systems and the other is the Offender Management System. Corrections is not pursuing the replacement of their administrative systems at this time. However, they have requested \$17 million in general fund appropriations to develop an Offender Management System. (ref: the Information Technology Investment Board's Report of Recommended Technology Investment Projects for the 2004-2006 Budget Biennium, submitted to the Governor and General Assembly on September 9, 2003.)

***Secretary of Finance  
Public-Private Partnership Project***

**State Tax Accounting and Reporting System.** In 1998, Taxation contracted with American Management Systems (AMS) to develop and implement an Integrated Revenue Management System. Taxation also contracted with TRW Systems & Information Technology Group (TRW) to conduct periodic project performance monitoring and evaluation services. The project had an original completion date of 2003, now extended to June 30, 2004.

The primary justification for the Partnership Project was to replace Taxation's 20-year-old legacy revenue accounting system, STARS (State Tax Accounting and Reporting System).

**Status:** The Partnership Project expected to implement the STARS replacement, Advantage Revenue, in October 2003. However, in the 2003 Session of the General Assembly, legislation was passed that required Taxation to operate a Tax Amnesty program in the Fall of 2003. As a result, Taxation delayed the implementation of Advantage Revenue until September 2004, to allow for the completion of the Tax Amnesty program as well as accommodate the Spring 2004 filing season and fiscal year end processing.

**Partnership Project Funding.** Partnership Project funding comes from increased tax revenues generated as a result of technological solutions and improved business processes the Partnership Project developed and implemented. The additional revenues go into the 90 percent fund and the 10 percent fund. The 90 percent fund pays AMS its contractual obligations, while the 10 percent fund pays all other expenses attributable to the project. These collections increased approximately \$7 million over the prior year. At June 30, 2002, cumulative Partnership Project revenues totaled almost \$99 million.

#### **Partnership Project Revenues**

<b>Fiscal Year</b>	<b>90 Percent Fund</b>	<b>10 Percent Fund</b>	<b>Total</b>
<b>1999</b>	\$ 5,695,458	\$ 632,799	\$ 6,328,257
<b>2000</b>	10,487,760	1,165,337	11,653,097
<b>2001</b>	33,140,337	3,682,260	36,822,597
<b>2002</b>	<u>39,522,127</u>	<u>4,391,347</u>	<u>43,913,474</u>
<b>Total</b>	<u>\$88,845,682</u>	<u>\$9,871,743</u>	<u>\$98,717,425</u>

**Partnership Project Cost.** Original contract costs with AMS totaled \$123 million. In addition, Taxation agreed to pay AMS interest on any interim billing if the 90 percent fund did not have the resources to pay. Taxation initially estimated that interest payments would total \$17 million over the life of the contract.

Due to various change orders, the contract price has increased to \$153 million, but as of June 30, 2002, Taxation projected interest costs of \$3 million rather than the original \$17 million. This interest projection decreased \$6 million from November 2001 and resulted from the project initiatives generating revenues in a shorter-than-expected period.

Taxation is incurring other project costs in addition to the AMS payments discussed above. These additional costs include overhead and miscellaneous expenses such as TRW payments supported by the 10 percent fund, as well as Taxation staff time spent directly on the projects, primarily supported by Taxation's operating general fund budget.

The following chart highlights that total anticipated project costs exceed \$200 million, including interest payments and Taxation payroll projections. The chart also summarizes the corresponding actual costs incurred during fiscal 2002 and for the project to date through June 30, 2002.

	<b>Anticipated Costs *</b>	<b>Fiscal Year 2002 Activity</b>	<b>Activity To Date **</b>
<b>Partnership Project contract cost (90 percent fund)</b>	\$153,000,000	\$31,895,861	\$ 75,832,298
<b>Partnership Project interest payments (90 percent fund)</b>	3,000,000	243	1,075,586
<b>TRW (10 percent fund)</b>	5,000,000	983,786	2,625,804
<b>Overhead/miscellaneous (10 percent fund)</b>	13,000,000	3,876,081	5,566,419
<b>Taxation payroll (Taxation general fund) **</b>	<u>33,000,000</u>	<u>7,761,065</u>	<u>19,606,190</u>
<b>Total projected project costs</b>	<u>\$207,000,000</u>	<u>\$44,517,036</u>	<u>\$104,706,297</u>

\* as of June 30, 2002

\*\* Includes actual balance at June 2002 (\$20 million) and projected costs of \$13 million through June 2004

After completing the project, Taxation will need ongoing funding to support the operating costs of the new system. On November 20, 2001, Taxation and AMS made several contractual changes. One of these changes adjusted the fund retention figures from 90/10 to 70/30, beginning July 1, 2003. This change will allow Taxation to accumulate \$7.4 million more in their administrative account to pay future operating cost increases, rather than receive increased General Fund appropriations. This change allows Taxation to have up to \$11 million available for use in funding various parts of the project, including lease payments and hardware and software maintenance costs.

Once Taxation accumulates these monies, the fund split will revert back to 90/10. This essentially takes away funding that would otherwise have been used to pay AMS progress billings and places Taxation at risk of paying more interest payments to AMS. On the other hand, this funding arrangement relieves the General Assembly from the burden of appropriating General Funds to support these operating cost increases in fiscal year 2004. For allowing this change, Taxation agreed to lengthen the payback period from 10 years to 11 years.

**Status:** APA will continue to monitor the project.

### ***Department of Criminal Justice Services for the Years Ended June 30, 2001 and June 30, 2002***

**Virginia Integrated Justice Program Project.** The Department is implementing the Virginia Integrated Justice Program (IJP) under the direction of the Secretary of Public Safety. This system will allow the sharing of information between the Departments of State Police, Motor Vehicles, Corrections, and Juvenile Justice, the Supreme Court, and the Compensation Board. The goal of IJP is improving access to criminal history information, probation and parole reports, court disposition information, driving records, and other public safety information. The project schedule for system development, implementation, and testing is a little more than three years. The Project Steering Committee developed a General Concept and Scope Document, which is the basis for creating the Project Baseline and determining the associated costs of the project.

A revised budget shows a planned cost of \$6.5 million, down from the \$8.1 million previously budgeted. The primary funding source for the project is a Federal grant under the Crime Identification Technology Act, which has allocated \$6.5 million over the next two years. The planned project costs include the estimated cost to provide procurement, installation, management, maintenance, support, training, and internal staffing to complete the project. The Project Steering Committee has identified a Strategic Plan and is revising the workplan to modify the deliverables and reduce the project cost to the allocated budget.

**Status:** The IJP project, projected to cost \$6.5 million, is currently in the development phase. A phased-in rollout is expected during fiscal 2005.

*Department of State Police  
for the Period January 1, 2001 through December 31, 2002*

**Immediate and Long-Term Information Technology Needs.** The State Police has not concentrated on long-range strategic planning to address the department's information technology needs.

The age, level of technology, and needs for information and equipment have reached a point where the State Police needs to develop both a short-range and long-term strategy to address its information technology needs. This process needs to follow the guidance issued by the Department of Technology Planning, and should include establishing an internal management structure to set technology needs.

The State Police should establish an internal management structure that consists primarily of non-technical personnel who provide an operational viewpoint to the planning process. This group should work with the State Police's information technology management and staff in setting realistic priorities for equipment procurement as well as systems development. The Superintendent should provide the group with the authority and responsibility of holding group and information technology management accountable for addressing the needs of the agency.

Examples of the technology issues facing the State Police include:

**Inadequate Information Systems Strategic Planning.** The majority of State Police's data resides on a mainframe platform. The software and operating system for this platform must be licensed by the Unisys Corporation through a lease that expires on November 30, 2003. After that, the cost to continue operating the current Unisys system will be approximately \$85,000 per month. The State Police has obtained funding and approval to replace the Unisys system, which will allow the State Police to upgrade and update the equipment and operating system. However, the funding will only convert the existing programs to a software product that will require substantial changes to maintain current functionality. These systems will remain in the older technology and will eventually require replacement.

The current plans to replace the system do not provide long-term solutions, only short-term fixes that will incur significant additional funding needs for upgrading and improving the system, and possibly having to acquire additional equipment. We recommend the State Police instead develop a long-range information technology plan that identifies their current and anticipated technology requirements. Without appropriate long-term systems development plans and procedures, the State Police risks failure or premature obsolescence of new systems.

The State Police is currently considering a proposal to hire an independent systems development consultant to evaluate their long-term needs.

**Lack of Formal Systems Development and Program Change Guidelines.** Most organizations have a mechanism to evaluate the cost and benefit of each program change, or systems development request. The mechanism not only reviews the cost and benefit, but also assigns the request a priority status, and at least semi-annually reports to management the progress of implementing the changes. This mechanism also annually reviews all outstanding, but uncompleted requests, and re-evaluates their cost, benefit, and priority. As part of the re-evaluation mechanism, the review also examines if new or other technologies now exist to complete the task. The State Police does not have such a mechanism.

There are approximately 80 outstanding program change requests that have been on the State Police's list for several years. Several of the outstanding system changes or development requests could improve the use of department resources and improve the efficiency of operations. Changes of these types have saved other state agencies resources, or are necessary to the continued funding of the State Police:

- An Interface between the Commonwealth Accounting and Reporting System (CARS) and the State Police's Internal Accounting System: most state agencies use this interface to eliminate duplicate data entry, reduce reconciliation and internal financial preparation times, and increase general accuracy of information. The original request for the interface was submitted January 28, 1992. The project has been reported to be in the development phase for the past three years, though no progress has been identified.
- Inventory System Improvements: the State Police's information group upgraded the inventory system without user acceptance testing. As a result, the information group needed to make substantial changes to the system's functionality and data input to make the system usable.
- Criminal Justice Systems: many outstanding requests involve the operations and reporting functions within the Criminal Justice systems housed at the State Police. There are several outstanding requests that would improve the efficiency and accuracy of criminal records, accessed locally and by criminal justice agencies nationwide.
- Billing Systems: the State Police collects over \$15 million for various fees and services. To make these collections, the State Police uses several billing systems. However, none of these systems track and reconcile receivable balances efficiently. In some cases, the system only generates a bill and the staff is responsible for maintaining spreadsheets to track and collect the receivables.
- Interagency Billings: a significant portion of the State Police's revenue collections comes from other state agencies. The current billing system cannot produce the forms to bill other agencies for services, so staff must manually prepare the forms. The request to automate the Interagency billing form has been outstanding since July 1998.
- Consolidated Billing System: the State Police needs a consolidated billing system that would centralize the billing function, create invoices, track payments, reconcile differences, and age receivables. A systems requirements document was completed and approved on February 5, 2003, but development has not begun.
- Systems Development Staff: State Police has consistently experienced shortages in systems development staff. This shortage, and the lack of an effective mechanism to evaluate changes and set priorities, have led to the significant backlog in requests for IT services. State Police should evaluate the current systems development process and seek alternative solutions to promote efficient operations throughout the department.

**Status:** The State Police is currently considering a proposal to hire an independent systems development consultant to evaluate their long-term needs.

## PERFORMANCE, BUDGETING AND FORECASTING

**The APA's Performance, Budgeting and Forecasting Team.** How does the state estimate how much income tax it will collect? Is a state program meeting its goals? How can we better monitor our spending? Governments ask these questions every day.

Today more than ever, state government is under pressure to provide more services with fewer resources. Agencies can only do this through sound financial management – the ability to forecast, budget, and manage performance. Forecasting provides an estimate of what the Commonwealth will collect and spend. That estimate helps develop the budget – the plan for how the Commonwealth will allocate and monitor its resources. Agency management then monitors results through performance management, and uses this information to allocate resources.

To help ensure the Commonwealth makes best use of these management tools, the APA has formed a team of auditors who receive specialized training in budgeting, forecasting, and performance management. The Performance, Budgeting and Forecasting Team's work can include analyzing the budget of a state program, reviewing an agency's strategic plan, or auditing an agency's performance measures. To stay on top of current issues, team members regularly attend legislative meetings and closely monitor the state's forecasts and budget process. The Team reports its findings regularly at an agency and a statewide level.

Recent Performance, Budgeting, and Forecasting Team findings include:

### *Department of Planning and Budget for the Year Ended June 30, 2002*

**“Virginia Results” Project.** In 2000, the General Assembly passed legislation requiring the Department of Planning and Budget (DPB) to develop, implement, and manage an Internet-based performance information system, so that citizens could have access to the information. To address this legislation, Planning and Budget developed and implemented “Virginia Results.” Virginia Results is part of the DPB website and was developed by the Planning and Budget staff. Virginia Results contains strategic planning and performance information for each executive branch agency, not including colleges and universities. Information reported on Virginia Results includes agency mission statements, key customers, critical issues, and performance measures results. Planning and Budget also collects and reports information on statewide quality of life indicators. Citizens have access to this information on the Internet through the Planning and Budget website or through links on the Governor's website.

When initially implemented, agencies submitted the information to their Planning and Budget analyst, who then entered the information into a performance measures database. Since then, Planning and Budget has developed Virginia Results to give agencies the capability to enter and change their performance information online. Planning and Budget controls agency access to Virginia Results and advises agencies when it is time to update information; however, Planning and Budget relies on agencies to update their own performance information.

**Performance Measurement.** Performance measurement is one of four components in Virginia's performance management system. When agencies first developed strategic plans in 1995, they had to develop three to five performance measures. The agencies developed their measures, which Planning and Budget and the Joint Legislative Audit and Review Commission (JLARC) staff then reviewed. The reviews ensured measures were meaningful and reasonable, given the nature of the agency and programs. As part of this process, agencies also developed performance baselines and targets for each measure. Agencies began reporting on the results for each performance measures in fiscal year 1996.

Since then, agencies have reported the results of performance measures to Planning and Budget on an annual basis, but there have been some changes in the reporting process. Planning and Budget now requires that each agency have at least one performance measure with no maximum limit on the number of measures allowed on Virginia Results. In addition, agencies can modify performance measures information without review by Planning and Budget or JLARC, and changes can include adding new measures or deleting existing measures. Although Planning and Budget has started documenting these changes, there is no approval required. Planning and Budget recommends that agencies only make changes to performance measures if it will make the measures more useful and relevant.

Furthermore, agencies do not need to report baseline or target information for each measure. If an agency chooses to report a target performance level, Planning and Budget requires that they also identify a target year. An additional change in performance measurement reporting affected colleges and universities. Planning and Budget, in collaboration with higher education institutions and the State Council of Higher Education in Virginia (SCHEV), developed core performance measures for all higher education institutions in 1995. The colleges and universities reported these measures to Planning and Budget for inclusion on Virginia Results beginning in 1996 through fiscal year 2000.

In 2000, Planning and Budget delegated the responsibility for strategic planning, as well as accumulating and reporting performance information for colleges and universities to SCHEV. Chapter 814 of the Appropriation Act required that SCHEV develop Reports of Institutional Effectiveness (ROIE) and coordinate efforts with Planning and Budget to minimize the duplication of performance measures information for colleges and universities. As a result, SCHEV began including both system-wide and institution-specific performance measures information in their ROIE in July 2001. These reports are available on the SCHEV website and accessible to citizens. The current Governor has developed and implemented executive agreements with agency heads and cabinet secretaries. These agreements include some performance measures for evaluating individual performance, as well as new measures to evaluate agency performance. Virginia Results includes all these measures in a restricted area inaccessible to citizens.

## **Review of Performance Measures Information**

We requested and obtained a copy of the Virginia Results database on October 11, 2002. The database is the underlying source for the information presented on the Virginia Results Internet site. This database included information on 363 performance measures and results for fiscal years 1996 through 2002.

We reviewed the database for completeness to ensure that it included the required information that agencies must report each year. We did not determine the accuracy of the performance information reported and we did not evaluate the appropriateness of the measure as part of this review. Overall, we found that the agency performance measures information reported on the Virginia Results Internet site is incomplete:

- 143 (40 percent) performance measures with no reported 2002 performance results.
- 69 (20 percent) performance measures with no reported 2001 performance results.

- 26 (8 percent) performance measures with no reported 2000 performance results.
- 222 (61 percent) performance measures had targeted performance levels, but did not specify a targeted year.
- Eleven agencies did not record the required strategic planning information on Virginia Results such as a mission statement, strategies, and critical issues.
- Six performance measure target years were not in the correct format. They were recorded as a number instead of a year.

There were several breakdowns in the process, which resulted in incomplete performance data. First, agencies are not entering information as required by Planning and Budget. Planning and Budget gives agencies instructions for entering data in Virginia Results; however, agencies are not always following these instructions. Second, Planning and Budget does not routinely follow up with agencies on incomplete or inconsistent information. Lastly, Planning and Budget does not regularly review the information entered by agencies for reasonableness.

### **Recommendations:**

- Agencies must follow Planning and Budget's instructions for entering and reporting information. Agencies need to ensure their performance management information is properly updated and timely. Agencies also need to ensure that they report all required information.
- It is not clear who has responsibility for ensuring the required information is reported. The question remains whether this information is the responsibility of the agency or Planning and Budget. Planning and Budget needs to resolve this issue and clearly define this responsibility before it can improve the process.
- Planning and Budget needs to improve their procedures for reviewing the data. They should periodically review the data for reasonableness and completeness and include a follow-up with agencies not reporting information. Planning and Budget should also determine whether it is possible to build any edit checks into the database, which could flag fields that are incomplete.
- Another area requiring examination is Planning and Budget's responsibility for reviewing changes to existing performance measures. Currently, agencies can modify, add, or delete measures without review. Planning and Budget recommends that agencies only make changes to performance measures information if the change will make the measures more useful and relevant; however, these changes are not reviewed or approved.
- The Governor's office needs to clarify the relationship between the performance measures in executive agreements and the performance measures reported on Virginia Results.

### **Overall Performance Management Issues**

There are several related issues that require examination if performance management is going to succeed in Virginia. Currently, the Commonwealth is allocating resources to accumulating and reporting strategic planning and performance measurement information. While the Commonwealth has a good performance management reporting system in place, there remain many questions about whether the current performance



measures are the appropriate measures for evaluating government programs and activities. Thus far, agencies have had the majority of the responsibility for developing and changing their own performance measures. There has been limited input from the legislature, citizens, and others in government on which measures are appropriate for an agency or program. As a result, it is questionable whether the Commonwealth is collecting the most useful performance information to provide a fair and objective evaluation of government programs and services. As part of this process, the Commonwealth has not adequately defined who the users of the information are or how either the executive branch or legislature will use the information. It is unclear the extent to which agencies or the administration currently use this information to make decisions, both at an agency and statewide level. It is also unclear whether this information is useful to citizens for evaluating government programs and activities.

Additionally, there has not been an implementation of this process, on even a limited basis, to fund either new or existing programs or activities using a performance management funding model. A successful performance management system requires leadership and active participation by both the executive and legislative branches. Additionally, it requires a clear definition of the roles and responsibilities in the performance management process. To start this process, the Commonwealth needs to identify and use a performance management process to fund a limited number of programs or activities to show how this process would work. The Performance Management Advisory Committee, established in 2000, has addressed similar issues in their reports dated August 2001 and August 2002. Their August 2002 report included several recommendations designed to improve performance management in the Commonwealth. These recommendations addressed the areas of public assurance, leadership, organizational performance management, communication, and human capital. We believe our recommendations in this report further support several recommendations made by the committee.

**Status:** In May 2003, DPB instructed analysts to work with agencies to clean up and modify performance measure information on the Internet site. APA is reviewing their progress and will report in December 2003.

## JUDICIAL SYSTEMS

The Judicial Systems Specialty group promotes sound financial management and accountability for public funds through audits of the various courts and related agencies that comprise the Judicial Branch of Virginia's State Government. These audits provide accurate and objective information including unbiased recommendations on financial management issues.

The Judicial Systems Specialty Team has five regional groups visiting the more than 320 individual circuit, district, and juvenile and domestic relations courts throughout the Commonwealth at least biennially. Our audits are financial-related with the objectives to determine whether the internal controls are adequate to ensure accurate and timely entry of financial transactions in the courts' automated information systems, to ensure that internal controls are adequate to provide proper safeguarding and distribution of financial assets, and to test compliance with certain laws and regulations.

In addition to communicating the results of our audits to the applicable local and state officials immediately after completing individual court audits, we also compile reports of statewide issues affecting circuit courts and district courts. Statewide issues are those internal control or compliance findings that have occurred in multiple individual courts, and therefore, require that the Executive Secretary of the Supreme Court, as the courts' administrator, consider issuing new guidelines or provide training to help the courts improve.

In our last statewide report, issued in December 2002, we noted the following issues:

- Improve Accounts Receivable Management (both circuit and district courts)
- Monitor and Disburse Liabilities (circuit courts)
- Improve Trust Fund Management (circuit courts)
- Properly Assess Fines and Costs (circuit courts)
- Properly Supervise and/or Improve Accounting Operations (both circuit and district courts)
- Properly Reconcile Bank Accounts (district courts)

## CHALLENGES FACING THE AUDITOR'S OFFICE

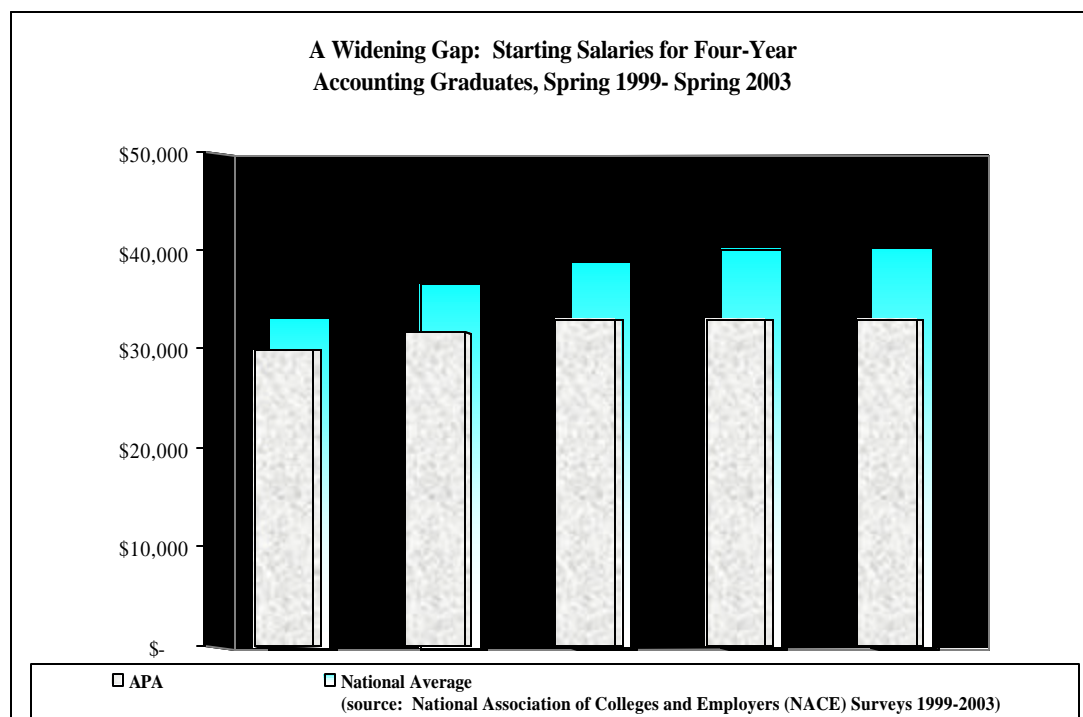
During the past two years, this Office has faced two related challenges: 1) meeting our budget reductions; and 2) retaining qualified experienced personnel. We have succeeded in meeting the challenge of our budget reductions, but we have not had the same success retaining staff.

This section discusses the challenges we have and will face within the Office over the coming year. We clearly believe that the greatest challenge facing the office is the retention of qualified experienced personnel. We depend on our human resources to maintain productivity, address challenges, and ensure the quality of work performed. Without dedicated, well trained, experienced staff, this office cannot succeed.

Both our internal expectations and the requirements of the auditing profession require that we spend resources to train and qualify staff to do ever more complicated work. However, unless we can retain the staff after investing these resources in their training, we will not have the ability to continue to improve our performance. The problem and our proposed solution is discussed below.

**Staff Retention.** Staff retention is an issue throughout the auditing profession and, in most audit organizations, staff turnover ranges from 15% to 20%. Typically, turnover is the result of such factors as changes in professional positions, competition for talent with other employers, changes in staffers' personal situations (i.e. marriage, children, relocation), and terminations. The APA's turnover generally exceeds industry averages and departing staff cite low pay as a principal reason for leaving.

Our auditors' starting salary lagged behind regional private sector salaries by 5.7% to 19.5%. Salaries for experienced and trained auditors and project managers are between 8% and 30% behind the regional private sector salaries.



As the economy slowed in fiscal years 2001 and 2002, our turnover fell to an average of 14.5%. However, since July 1, 2002, our turnover rate is approaching 30%. We expect this trend to continue, as economic analysts expect financial sector hiring to increase shortly.

Our staff of 118, including the Auditor of Public Accounts and the Deputy Auditor of Public Accounts, includes 74 auditors, 14 audit directors, 18 court auditors, and 10 administrative and support staff. We encourage and the staff do pursue advanced training and certifications: Our staff represents a key resource to the Commonwealth and our Office. We need to find a way to compensate these individuals for both their dedication and hard work.

Since 1995, these individuals have helped reduce our office size from 195 positions to the present 145. We have been able to absorb this reduction by using these people's talents to re-engineer and re-examine both our work and products, and to institute the following:

**Efficiencies achieved.** Since 1995, we have reduced our maximum employment level 25%, from 195 to 145. At the end of fiscal 2003, our actual employment was only 118. We accomplished this through:

- Taking a statewide approach to audit testwork, including the statewide single audit of federal programs.
- Using a risk-based approach to prioritize and conduct audits.
- Using technology such as computer-assisted auditing techniques (CAATs) in performing our audits. We maintain a data warehouse of several statewide systems information (CARS, FAACS, CIPPS, and Courts), which enables us to better retrieve and analyze financial data.
- Using office automation that enables us to recognize further savings through closing district offices and centralizing many audit procedures. This automation also enables us to document, store, and retrieve our workpapers more efficiently.
- Reorganizing human resources. Overall, we have reduced the number of directors and managers from 25 to 16; reallocated audit and administrative positions; and changed from nine pay scales to three salary bands. Additionally, we now use associate auditors for court system audits.

**Proposed solution.** The General Assembly could consider allowing us to use our internal savings to provide our staff a cost-of-competition increase to compensate for the disparity of our salaries with the market and make our mandated budget cuts. Following is a discussion of our funding.

### **Financial Operations**

This Office funds its operations from a mix of General Fund appropriations and charges for audit services that we deposit into a special revenue account. Following is summary fiscal information for the 2003 year.

**Analysis of Budgeted and Actual Revenue by Funding Source**

<b><u>Funding Source</u></b>	<b><u>Original Budget</u></b>	<b><u>Adjusted Budget</u></b>	<b><u>Actual Revenue</u></b>
General Fund appropriations	\$ 8,956,601	\$ 8,015,831	\$ -
Special Revenue	<u>708,958</u>	<u>708,634</u>	<u>781,385</u>
Total Revenues	<u>\$ 9,665,559</u>	<u>\$ 8,724,465</u>	<u>\$781,385</u>

**Analysis of Budget versus Actual Expenses by Funding Source**

<b><u>Funding Source</u></b>	<b><u>Adjusted Budget</u></b>	<b><u>Expenses</u></b>	<b><u>Variance</u></b>
General Fund appropriations	\$ 8,015,831	\$7,291,758	\$724,073
Special Revenue	<u>708,634</u>	<u>704,734</u>	<u>3,900</u>
Total Revenues	<u>\$ 8,724,465</u>	<u>\$7,996,492</u>	<u>\$727,973</u>

**Appropriation Adjustments**

***General Fund:***

	\$ 8,956,601
Required Adjustments	(140,770)
Budget Reduction	<u>(800,000)</u>

Adjusted General Fund Appropriation \$ 8,015,831

***Special Fund:***

	708,958
Special Revenue Surplus Appropriated	<u>(324)</u>

Adjusted Special Fund Appropriation 708,634

Total Appropriations \$ 8,724,465

**Funding.** This Office, in addition to the same budget reduction made in recent years by the rest of the state government, made a number of voluntary reductions in the early 1990s. Our current funding is actually 6% less than our 1992 budget.

If this Office had not undergone a voluntary re-examination of our operations, our current budget would have been 31% higher today. We have striven to respond to this challenge creatively, making optimal use of technology and reengineering to achieve new efficiencies in productivity.<sup>1</sup>

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<sup>1</sup> In 1992, the Office of the Auditor of Public Accounts had a General Fund appropriation of \$9,474,602. Assuming a modest 2.5% growth over the 11-year period from fiscal year 1992 to 2003, this would equate to \$12,431,499 in FY2003, or a 31.2% increase in appropriations. In fiscal year 2003, the Office's actual General Fund appropriation totaled \$8,956,601.

In addition to our special revenues, which fund internal operations, we have billed and deposited directly to the General Fund of the Commonwealth the amount shown below.

<u>Revenues</u>	
Circuit Courts	\$ 341,764
Center for Innovative Technology	<u>33,000</u>
General Fund Total	<u>\$ 374,764</u>

**Fiscal 2004 Budget.** This budget is the same as the operating requirements for fiscal 2003. Staff turnover is generating an additional saving, but we are having to forego doing audits and working overtime.

**Analysis of Budgeted and Actual Revenue by Funding Source**

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>
General Fund appropriations	\$ 8,962,339	\$ 8,015,831
Special Revenue	<u>708,958</u>	<u>708,634</u>
Total Revenues	<u>\$ 9,671,297</u>	<u>\$ 8,724,465</u>

We believe a better use of some of these funds is to adjust the salaries of experienced, trained staff in order to retain them. We anticipate that we will not only meet our budget reduction as we did in fiscal 2003, but that we will have additional savings. Using some portion of this additional savings for salary adjustments in the long term will provide additional savings to the Commonwealth and allow us to continue performing our work to the standard expected by the legislature and by our profession.

## APPENDIX A

### About the APA

The Auditor of Public Accounts serves as the General Assembly's auditor and as such attempts to accomplish the following mission with his staff: to serve Virginia's citizens by promoting sound financial management and accountability for public funds.

We accomplish this mission by providing accurate and objective information and unbiased recommendations on financial management issues to the General Assembly and other decision makers based on the results of audits and analyses.

### STATUTORY DUTIES AND RESPONSIBILITIES

The Code of Virginia requires the Auditor of Public Accounts to perform the following duties and responsibilities. The Auditor accomplishes these functions with the assistance of staff provided through appropriation by the General Assembly.

Audit all the accounts of every state department, officer, board, commission, institution or other agency handling any state funds.

Conduct special reviews, studies, or audits as requested by the General Assembly through joint resolutions or appropriation language.

Upon discovery of any unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds, or it comes to his attention that any unauthorized, illegal, or unsafe handling or expenditure of state funds is contemplated but not consummated, he shall promptly report the facts to the Governor, the Joint Legislative Audit and Review Commission, and the Comptroller. In case there is any irregularity in the accounts of the Comptroller, the Auditor shall report it to the Governor and to the General Assembly.

***OUR MISSION is to serve Virginia's citizens by promoting sound financial management and accountability for public funds. We accomplish this mission by providing accurate and objective information and unbiased recommendations on financial management issues to the General Assembly and other decision makers based on the results of financial audits and analyses.***

The Auditor and the Superintendent of State Police shall receive and review reports suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party. In the event that the Auditor or the Superintendent determines to conduct an investigation, he shall notify the other of the commencement of the investigation as soon as practicable, unless the information involves the Auditor or the Superintendent.

As part of his normal oversight responsibilities, incorporate into his audit procedures and processes a review process to ensure that the Commonwealth's Personal Property Tax Relief Act payments are consistent with the provisions of the Code of Virginia.

When called upon by the Governor, examine the accounts of any institution or state officer.

Upon written request of any member of the General Assembly, furnish the requested information and provide technical assistance upon any matter requested by such member.

Comply with the provisions of the federal Single Audit Act and audit the accounts pertaining to federal funds received by state departments, officers, boards, commissions, institutions, or other agencies.

At least once every two years or when the Governor directs, audit all accounts and records of every city and county official and agency in the Commonwealth that handles state funds.

Under the direction of the Joint Legislative Audit and Review Commission, devise a modern, effective and uniform system of bookkeeping and accounting for the use of all county, city, and town officials and agencies handling the revenues of the Commonwealth or of any political subdivision thereof. The Auditor of Public Accounts may approve any existing system.

When requested by the governing body of any local government, make and establish a system of bookkeeping and accounting for such unit, which shall conform to generally accepted accounting principles.

Make and establish a uniform system of fiscal reporting for the treasurers or other chief financial officers, clerks of the courts and school divisions of all counties and cities, and all towns having a population of 3,500 or over and all towns constituting a separate school division regardless of population.

Prepare and publish annually a Comparative report of local government revenues and expenditures showing in detail the total and per capita revenues and expenditures of all localities for the preceding fiscal year.

In the event a locality fails to obtain the annual audit, the Auditor of Public Accounts may undertake the audit or may employ the services of certified public accountants and charge the full cost of such services to the locality. However, no part of the cost and expense of such audit shall be paid by any locality whose governing body has its accounts audited for the fiscal years in question as prescribed above and furnishes the Auditor of Public Accounts with a copy of such audit.

The Code of Virginia further requires the Auditor to serve as an ex officio member of the Compensation Board, the Joint Legislative Audit and Review Commission and the Debt Capacity Advisory Committee.

## **MANAGEMENT RESPONSIBILITIES**

The Auditor serves as the chief administrative officer, overseeing the administrative functions such as personnel, accounting, budgeting, staffing, training and other areas.

Audit organizations that perform work under the federal Single Audit Act and that have their work recognized by Bond Rating Agencies and other regulatory bodies and by users of financial information, must maintain a system of quality control. The system of quality control must undergo an external review at least once every three years. The Auditor must ensure that this quality control system exists, and that all staff maintain their qualifications to meet these standards.



## **OTHER RESPONSIBILITIES**

The Auditor serves as a member of a number of advisory boards and committees that provide guidance on various aspects of state government operation.

Upon request, the Auditor will provide public information about the office and our duties and responsibilities.

## APPENDIX B

### History of Virginia's Auditor of Public Accounts

The Office of the Auditor of Public Accounts was established in its present form in 1928. As provided by Article IV, §18 of the Constitution of Virginia and §30-130 of the Code of Virginia, the Auditor of Public Accounts is elected by the joint vote of the two houses of the General Assembly for a term of four years.

Code of Virginia, Chapter 14 of Title 30, further describes the duties and responsibilities of the Auditor of Public Accounts. The Auditor of Public Accounts is responsible for auditing all accounts of every state department, institution, or officer handling any state funds. The Auditor of Public Accounts also audits accounts and records of every city and county official handling state funds. The Auditor is responsible for determining appropriate investigative

methods for fraudulent transactions reported by any state department, officer, agency, or local constitutional officer. The Auditor provides technical assistance and information to any member of the General Assembly upon written request.

**In 1621, concerned that local officials were either failing to collect taxes or were improperly retaining the collections, as well as deducting excessive expenses, the House of Burgesses created the Auditor of Public Accounts.**

Walter J. Kucharski was appointed as the Auditor of Public Accounts in November 1984 and confirmed by the both houses to a 4-year term during the 1985 General Assembly session. Mr. Kucharski has been reappointed to the position each subsequent 4 years.

Since 1984, the Office has undertaken new responsibilities added by federal and state laws and regulations, and has restructured the office organization to address changes within the profession and the government. The following is a brief timeline of some major changes within the Office.

1984	With the passage of the Single Audit Act by Congress, the Office was required to perform individual audits and issue separate reports for each state agency and higher education institution receiving federal funds.
1985	The General Assembly removed the Auditor of Public Accounts' responsibility for performing local government audits. The Auditor is required by statute to establish the audit specifications for local government audits and a uniform chart of accounts for use by all local governments.
1992	To improve the single audit process, the Auditor of Public Accounts performed its first statewide single audit of federal programs. This new approach provides both state and federal officials with a single document that identifies all federal financial assistance administered by the Commonwealth.

1993	The Auditor of Public Accounts undertook a major initiative to restructure its operations. A new mission statement was developed and five long-range strategies were adopted to achieve our mission. Project groups, comprised of all levels of management and staff, began work to develop policies and procedures to implement the strategies.
1994	Due to increased importance placed on public accountability, the APA began performing financial related audits. Financial related audits focus on the financial management aspects of an agency and allow the staff to tailor their audits to the emerging issues and changes in the governmental sector.
1995	Expertise groups were established. Management and staff chose an expertise area of interest such as Accounting and Auditing Standards; Federal Grants and Contracts; and Fraud, Waste, and Abuse. Expertise team leaders and group members developed objectives and identified how their group would function within the Office.
1997	All strategy projects were completed and the Office began implementing project results. A new financial management risk model was created and implemented to drive our audit workplan. The organizational structure was flattened down to three levels; project leader, auditor, and staff. This reorganization paves the way for performance-based salary increases, and affords employees the opportunity to follow the progression to either project leader or specialist within the APA.
1998	An Automated Workpaper Team was formed to evaluate software that will facilitate paperless audits in the near future. Additionally, a Workgroup was created to change the way we audit courts and make use of database software, putting the power to create reports in the hands of the auditors.
2000	Long and short-term strategies, initially developed in 1993, were revisited. Performance measures were assigned to these strategies. Two-year training plans were developed for each staff with an emphasis on core and specialty training. Also, continuous auditing techniques began on selected projects.
2001	The specialty teams were reexamined and reorganized into 11 specialty teams and assigned two audit directors for the Commonwealth's Comprehensive Annual Financial Report (CAFR) and the Statewide Single Audit (SSA) of federal programs.

## APPENDIX C

### APA's Products

**Audit Reports and Special Reports:** The Auditor of Public Accounts conducts audits and special reviews of state agencies, universities, courts, and the offices of local governments. Audit and special reports from October 1, 1998 through the present are stored electronically and are accessible through our website.

**Quarterly Reports:** The Auditor of Public Accounts issues a quarterly synopsis of its audit reports and special reports. These reports highlight significant findings only. Quarterly Reports from the first fiscal quarter of 1999 through the present are stored electronically and are accessible through our website.

**Comparative Cost Reports:** The Auditor of Public Accounts compiles and publishes detailed cost data for Virginia's localities. Comparative Cost Reports from 1988 through the present are stored electronically and are accessible through our website.

**Reporting Subscription Service:** APA offers an electronic reporting alert service. By subscribing, individuals and agencies will receive periodic email announcements about newly released reports, and may then retrieve any report from our Internet report files. To subscribe, go to [www.apa.state.va.us](http://www.apa.state.va.us) and follow the "Reports" link.

### Non-Court Audits and Reviews

The following non-court audit and review reports were released by the APA during the period July 1, 2002 through June 30, 2003. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

#### July 2002

Department of Information Technology, Service Organization Review Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness as of March 31, 2002\*

Virginia Correctional Enterprises Department of Corrections for the period January 1, 2001 through December 31, 2001\*

Norfolk State University for the year ended June 30, 2001\*

Norfolk State University, Intercollegiate Athletic Programs for the year ended June 30, 2001

Virginia Community College System for the year ended June 30, 2001\*

Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2002 to June 30, 2002

Special Review of Cash Management and Capital Budgeting Practices, Virginia Department of Transportation dated July 8, 2002\*

Virginia Veterans Care Center for the period January 1, 1998 to February 6, 2002\*

### **August 2002**

Virginia's Museums for the years ended June 30, 2000 and 2001

James Madison University for the year ended June 30, 2001

James Madison University, Intercollegiate Athletic Programs for the year ended June 30, 2001

### **September 2002**

Division of Selected Agency Support Services for the year ended June 30, 2002

Office of the Attorney General for the year ended June 30, 2002

Governor's Cabinet Secretaries for the year ended June 30, 2002

Office of the Governor for the year ended June 30, 2002

Office of the Lieutenant Governor for the year ended June 30, 2002

Public Defender Commission for the two-year period ended June 30, 2002

Virginia Racing Commission for the year ended June 30, 2002

Mary Washington College for the year ended June 30, 2001

### **October 2002**

Collection of Commonwealth Revenues by Local Constitutional Officers Statewide Report for the year ended June 30, 2002

Department of Alcoholic Beverage Control for the year ended June 30, 2002

Department of Correctional Education for the two-year period ended June 30, 2002

State Lottery Department of the Commonwealth of Virginia for the years ended June 30, 2002 and 2001

State Lottery Department, Report on Applying Agreed-Upon Procedures for the period April 1, 2001 through March 31, 2002

State Lottery Department, Report on Applying Agreed-Upon Procedures for the period September 9, 2001 through March 31, 2002

Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2002 to September 30, 2002

## **November 2002**

General Assembly and Legislative Agencies and Commissions of the Commonwealth of Virginia, Cash Basis Financial Report for the fiscal year ended June 30, 2002

Revenue Stabilization Fund dated November 22, 2002

Virginia Commercial Space Flight Authority for the year ended June 30, 2002

Virginia Information Providers Network Authority for the year ended June 30, 2002

Virginia Public Broadcasting Board for the year ended June 30, 2002

Virginia Retirement System for the year ended June 30, 2002\*

Virginia Polytechnic Institute and State University for the year ended June 30, 2002\*

Virginia Economic Development Partnership Annual Financial Report for the year ended June 30, 2002

## **December 2002**

Department of Education including Direct Aid to Public Education, The Virginia Schools for the Deaf and Blind, and The Virginia Schools for The Deaf and Blind Foundation for the year ended June 30, 2002

Department of Medical Assistance Services for the year ended June 30, 2002\*

Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2002

Virginia Circuit Courts Statewide Report during the period July 1, 2001 through June 30, 2002\*

Virginia District Courts Statewide Report completed during the period July 1, 2001 through June 30, 2002\*

Virginia Tourism Authority for the year ended June 30, 2002

Wireless E-911 Services Board for the year ended June 30, 2002

University of Virginia Medical Center for the year ended June 30, 2002\*

Virginia Polytechnic Institute and State University, Intercollegiate Athletic Programs for the year ended June 30, 2002

Review of Performance Measures dated November 8, 2002\*

Commonwealth's Electronic Procurement System eVA dated December 6, 2002\*

Special Review of Virginia Museum of Natural History dated November 20, 2002\*

### **January 2003**

Local Government Investment Pool for the year ended June 30, 2002

Department of Health for the year ended June 30, 2002\*

Department of Motor Vehicles for the year ended June 30, 2002\*

Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2002

Virginia Biotechnology Research Park Authority for the year ended June 30, 2002\*

Virginia College Savings Plan for the year ended June 30, 2002\*

Virginia Port Authority for the year ended June 30, 2002\*

Virginia Port Authority, Annual Financial Report for the year ended June 30, 2002

Virginia War Memorial Foundation for the year ended June 30, 2002

University of Virginia for the year ended June 30, 2002\*

University of Virginia, Intercollegiate Athletic Programs for the year ended June 30, 2002

Virginia Commonwealth University for the year ended June 30, 2002\*

Virginia Commonwealth University, Intercollegiate Athletic Programs for the year ended June 30, 2002

Report to the Legislative Audit and Review Commission for the quarter October 1, 2002 to December 31, 2002

### **February 2003**

Department of Information Technology for the year ended June 30, 2002

Innovative Technology Authority for the year ended June 30, 2002

Innovative Technology Authority Including Its Blended Component Unit Center for Innovative Technology for the year ended June 30, 2002

Department of Transportation for the year ended June 30, 2002\*

Virginia Employment Commission for the year ended June 30, 2002\*

Virginia Tobacco Settlement Foundation for the year ended June 30, 2002

The College of William and Mary for the year ended June 30, 2002\*

The College of William and Mary, Intercollegiate Athletic Programs for the year ended June 30, 2002

### **March 2003**

Agencies of the Secretary of Finance for the year ended June 30, 2002\*

Agencies Serving Virginians with Disabilities for the year ended June 30, 2002

Commonwealth Health Research Board for the year ended June 30, 2002

Department of Aviation for the year ended June 30, 2002

Department of Business Assistance for the year ended June 30, 2002

Department of Corrections and Virginia Parole Board for the year ended June 30, 2002\*

Department of Criminal Justice Services for the years ended June 30, 2001 and June 30, 2002\*

Department of Emergency Management for the year ended June 30, 2002\*

Department of General Services for the year ended June 30, 2002\*

Department of Historic Resources for the period January 1, 2001 through December 31, 2002

Department of Human Resource Management for the year ended June 30, 2002

Department of Mental Health, Mental Retardation, and Substance Abuse Services for the year ended June 30, 2002\*

Department of Social Services for the year ended June 30, 2002\*

Potomac River Fisheries Commission for the year ended June 30, 2002

Southwest Virginia Higher Education Center for the year ended June 30, 2002

The Virginia Removal or Rehabilitation of Derelict Structures Fund for the year ended June 30, 2002

Virginia Public School Authority for the year ended June 30, 2002

Virginia Small Business Financing Authority for the year ended June 30, 2002

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2002\*



### **April 2003**

Department of Forestry for the period March 1, 2001 through December 31, 2002

Virginia College Building Authority for the year ended June 30, 2002

Virginia Public Building Authority for the year ended June 30, 2002

Christopher Newport University for the year ended June 30, 2002

Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2003 to March 31, 2003

### **May 2003**

Department of Conservation and Recreation for the year ended June 30, 2002\*

Department of Juvenile Justice for the year ended June 30, 2002\*

Department of State Police for the period January 1, 2001 through December 31, 2002\*

State Corporation Commission for the year ended June 30, 2002\*

The Virginia State Bar for the year ended June 30, 2002

Virginia Public Broadcasting Stations, Comparative Revenue and Financial Report for the year ended June 30, 2002

Longwood College for the year ended June 30, 2002

Old Dominion University for the year ended June 30, 2002\*

WNSB-FM Radio Station (a Public Telecommunications Entity Licensed to Norfolk State University) for the year ended June 30, 2002

Virginia Military Institute for the year ended June 30, 2002\*

Virginia Military Institute, Intercollegiate Athletic Programs for the year ended June 30, 2002

Commonwealth Competition Council, Special Report dated April 2003\*

Special Review of the Commonwealth of Virginia's Fixed Asset Accounting and Reporting System dated January 2003

### **June 2003**

Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2002 and the six-month period ended December 31, 2002

George Mason University for the year ended June 30, 2002

George Mason University, Intercollegiate Athletic Programs for the year ended June 30, 2002

Mary Washington College for the year ended June 30, 2002

Radford University for the year ended June 30, 2002

Radford University, Intercollegiate Athletic Programs for the year ended June 30, 2002

Virginia State University for the year ended June 30, 2002

## Courts Reports

Circuit Court Audits - July 1, 2001 through June 30, 2002

Accomack County*	Giles County	Pittsylvania County
City of Alexandria	Gloucester County	City of Petersburg*
Alleghany County	Goochland County	City of Portsmouth
Amelia County	Grayson County	Powhatan County*
Amherst County	Greene County*	Prince George County*
Appomattox County*	Halifax County	Prince William County*
City of Arlington*	City of Hampton	Pulaski County*
Augusta County	Hanover County	City of Radford
Bath County	Henrico County	Rappahannock County
Bland County	Henry County	Richmond County
Bedford County	Highland County	Richmond City-John Marshall
Botetourt County	City of Hopewell	Richmond City-Manchester
City of Bristol*	Isle of Wight County	Roanoke County*
Brunswick County*	James City County/ Williamsburg	City of Roanoke
City of Buena Vista*	King & Queen County	Rockbridge County
Buchanan County	King George County*	Rockingham County*
Buckingham County	King William County	Russell County
Campbell County	Lancaster County	City of Salem*
Caroline County	Lee County	Scott County
Carroll County	Loudoun County	Shenandoah County
Charles City County*	Louisa County*	Smyth County
City of Charlottesville*	Lunenburg County	Southampton County
City of Chesapeake	City of Lynchburg	Stafford County
Chesterfield County	Madison County*	City of Staunton
Clarke County*	City of Martinsville	City of Suffolk
City of Colonial Heights*	Mathews County	Surry County
Craig County	Mecklenburg County	Sussex County*
Culpeper County	Middlesex County*	Tazewell County
Cumberland County	Montgomery County*	City of Virginia Beach
Dickenson County	Nelson County	Warren County*
Dinwiddie County*	New Kent County	Washington County*
Essex County	City of Newport News	City of Waynesboro
Fairfax County*	City of Norfolk	Westmoreland County
Fauquier County	Northampton County	City of Winchester*
Floyd County	Northumberland County	Wise County & Norton
Fluvanna County	Nottoway County	Wythe County*
Franklin County	Orange County	York County
Frederick County*	Page County	
City of Fredericksburg	Patrick County	

\* Denotes audits with one or more findings

District, Juvenile and Domestic Relations, and Combined General District courts audited during the period July 1, 2001 through June 30, 2002.

<b>General District Courts*</b>	<b>Juvenile and Domestic Relations Courts</b>	<b>Combined General District Courts*</b>
Accomack County	Accomack County	Alleghany County
Albemarle County	Albemarle County	Amelia County
City of Alexandria	City of Alexandria	Bath County
Amherst County	Amherst County	Bland County
Appomattox County	Appomattox County	Botetourt County
Arlington County	Arlington County	Brunswick County**
Augusta County**	Augusta County	Buchanan County
Bedford County	Bedford County	Buckingham County
City of Bristol	City of Bristol	City of Buena Vista
Campbell County	Campbell County	Carroll County
Caroline County	Caroline County	Charles City County**
Charlotte County	Charlotte County	City of Colonial Heights
City of Charlottesville	City of Charlottesville	Craig County
City of Chesapeake	City of Chesapeake	Culpeper County
Chesterfield County**	Chesterfield County	Cumberland County**
Clarke County	Clarke County	Dickenson County
City of Danville	City of Danville	Dinwiddie County**
City of Fairfax	Fairfax County	City of Emporia
Fairfax County**	Fauquier County	Essex County
Fauquier County	Franklin County	Floyd County
Franklin County	Frederick County	Fluvanna County
Frederick County	City of Fredericksburg	City of Franklin
City of Fredericksburg	Gloucester County	City of Galax**
Gloucester County	Halifax County	Giles County
Halifax County	City of Hampton	Goochland County
City of Hampton	Hanover County	Grayson County
Hanover County	Henrico County	Greene County
Henrico County	Henry County	Greensville County
Henry County	Isle of Wight County	Highland County
Isle of Wight County	James City/Williamsburg	City of Hopewell
James City/Williamsburg	King & Queen County	King George County
King & Queen County	King William County	Lee County
King William County	Lancaster County	Louisa County
Lancaster County	Loudoun County	Lunenburg County
Loudoun County	City of Lynchburg	Madison County
City of Lynchburg	City of Martinsville	Northampton County
City of Martinsville	Mathews County	Nottoway County
Mathews County	Mecklenburg County	Orange County
Mecklenburg County	Middlesex County	Powhatan County**
Middlesex County	Montgomery County	Prince Edward County
Montgomery County**	Nelson County	Prince George County
Nelson County	New Kent County	City of Radford
New Kent County**	City of Newport News	Rappahannock County

<b>General District Courts (cont'd)</b>	<b>Juvenile and Domestic Relations Courts (cont'd)</b>	<b>Combined General District Courts (cont'd)</b>
City of Newport News Criminal Division	City of Norfolk	Richmond County
City of Newport News Civil Division	Northumberland County	Rockbridge County
City of Newport News Traffic Division	Page County	Russell County
City of Norfolk Civil Division	Patrick County	City of Salem
City of Norfolk Criminal Division	City of Petersburg	Scott County
City of Norfolk Traffic Division	Pittsylvania County	Southampton County
Northumberland County	City of Portsmouth	Surry County**
Page County	Prince William County**	Sussex County
Patrick County	Pulaski County	
City of Petersburg	City of Richmond	
Pittsylvania County	City of Roanoke	
City of Portsmouth	Roanoke County	
Prince William County	Rockingham County	
Pulaski County	Shenandoah County	
City of Richmond Civil Division	Smyth County	
City of Richmond Criminal Division	Spotsylvania County	
City of Richmond - Manchester**	Stafford County**	
City of Richmond Traffic Division	City of Staunton	
City of Roanoke	City of Suffolk	
Roanoke County	Tazewell County	
Rockingham County	City of Virginia Beach	
Shenandoah County	Warren County	
Smyth County	Washington County	
Spotsylvania County	City of Waynesboro	
Stafford County	Westmoreland County	
City of Staunton	City of Winchester	
City of Suffolk	Wise/Norton City	
Tazewell County	Wythe County	
City of Virginia Beach	York County	
Warren County**		
Washington County		
City of Waynesboro		
Westmoreland County		
City of Winchester		
Wise/Norton City		
Wythe County		
York County		

\* - *Magistrate audits were performed in conjunction with Combined General District Court audits and General District Court audits. We completed magistrate audits in all 32 Judicial Districts during the period July 1, 2001 through June 30, 2002.*

\*\* - *Denotes court audits with one or more findings.*

## APPENDIX D

### APA Specialty Team Structure

APA has reorganized its auditing staff into a matrix of eleven specialty teams and one task force. Team members are primarily financial auditors who undergo additional training in one of several specialized areas, and may pursue advanced national certifications. The team structure leverages the training power of the APA by encouraging its members to train and assist other APA auditors. An integrated audit team consists of members from several specialties. The auditing specialties are:

- **Acquisition and Contract Management Specialty Team:** Tests compliance with laws, guidelines, and regulations; considers fraud, waste, and abuse in procurement; and determines whether procurement supports the mission of the entity, and is well managed.
- **Data Analysis Specialty Team:** Increases audit efficiency and effectiveness by automating the processes by which electronic data is retrieved, analyzed, and stored at agency and statewide levels. Takes a proactive approach to audits through monitoring risk profiles and identifying higher risk areas.
- **Financial Management Specialty Team:** Analyzes significant financial management-related activities within the Commonwealth; develops and implements audit programs for cash, investments, actuarial, and debt management; reduces related risk; and ensures that financial information is reported properly to the citizens of Virginia.
- **Higher Education Specialty Team:** Provides guidance to auditors performing higher education audits as to the special nature of college and university business operations; develops a core of knowledgeable auditors to assist in these audits; provides training and guidance on higher education financial reporting and compliance issues; and provides specific guidance on Student Financial Aid, Research and Development programs, and NCAA compliance issues.
- **Information Systems Development Specialty Team:** Monitors the development of financial information systems to ensure they will process financial data accurately, efficiently, and securely; and ensures projects are progressing on schedule, within budget, and toward success.
- **Information Systems Security Specialty Team:** Inspects and evaluates the hardware and software controls of critical computer systems in the Commonwealth's agencies and universities.
- **Judicial Systems Specialty Team:** Audits courts and related agencies that comprise the Judicial Branch of Virginia's State Government. These audits provide accurate and objective information including unbiased recommendations on financial management issues.

- **Performance, Budgeting and Forecasting Specialty Team:** Monitors the state's forecasts and budget process; analyzes program budgets; reviews agencies' strategic plans; and audits agencies' performance measures.
- **Property and Materials Management Specialty Team:** Ensures the proper management, control, and valuation of the following areas in state government: capital assets, infrastructure, depreciation, preventive maintenance, leases and installment purchases, inventory, supplies and materials, and historic treasures.
- **Reporting and Standards Specialty Team:** Helps to ensure the APA is following current accounting and auditing standards, and adopts new standards as they are issued.
- **Social and Medical Services Specialty Team:** Gains and maintains a comprehensive understanding of social and medical issues impacting the Commonwealth of Virginia, and reduces the Commonwealth's risk associated with such issues.
- **Fraud Task Force:** Performs or assists with fraud investigations conducted by the APA; stays updated on the latest fraud trends and investigative techniques; trains other APA auditors to increase their awareness of the risks of fraud, waste, and abuse. The Task Force's long term goal is to identify areas within State government susceptible to fraud, waste and abuse, and to develop proactive procedures to review these areas and minimize fraud risk.

## **APPENDIX E**

### **Contact Information**

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